SOCIOENVIRONMENTAL AND FORESTRY DEVELOPMENT PROGRAM II (POSAF II)

(NI-0141)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Ministry of the Environment and Natural Resources (MARENA), with the participation of the National Forestry Agency (INAFOR)	
Amount and source:	IDB (FSO):	US$ 32,700,000
	Parallel financing (NDF):	US$ 3,000,000
	Local:	US$ 2,300,000
	Total:	US$ 38,000,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	5 years
	Interest rate:	1% for the first 10 years and 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%

Objectives:

The purpose of the program is to improve socioeconomic conditions and living standards of residents of priority Nicaraguan watersheds and lessen the impact of natural disasters in these basins, through the sustainable use and development of renewable natural resources. In so doing, the program will help advance the economy of priority watersheds in the country and make them environmentally sustainable.

Specific POSAF II objectives are to: (i) raise the income and living standards of rural producers in the priority watersheds through the sustainable management of renewable natural resources; (ii) lessen the impact of natural disasters in these basins, and (iii) train area residents and help them organize for natural resources management.

Description:

Component I: Sustainable natural resources management (US$20.25 million). The *farm management subcomponent* will help introduce profitable, sustainable production systems on individual farms of approximately 14,150 producers, covering roughly

310,000 hectares. Support for farm management plans and technical assistance will be provided for every farm for sustainable natural resources management, and new production systems will be set in place on 77,700 hectares, providing material incentives to producers to properly adopt and consolidate the systems. The farms will be situated in selected priority areas in the program's priority subbasins. Some are privately owned operations in protected areas.

The plan is to introduce agroforestry, silvopasture, forest plantation, and woodlot management systems. Producers will draw up an overall plan for their farms with technical advice from an extension agent and with due regard to the respective subbasin's management plans. To entrench the production systems adopted the program will help instill practices involving soil conservation, integrated pest management, living or stone fences, contour plowing, ditching, terracing, pondage and troughs, green manure production and composting, wood-saving stoves, and slope correction.

Each producer will receive material support for one to two years and technical assistance for three years. The technical support will be phased out as a producer becomes familiar with the new practices. One of the criteria for producers to qualify and be chosen for the program will be their firm commitment to participate and furnish the requisite labor. A gender perspective will also be a feature here.

Aims of the *protected areas subcomponent* are the development of co-management plans and their implementation, including investment projects in the protected areas. The *Atlantic Coast pilot projects subcomponent* will fund preinvestment studies and the execution of forestry and agroforestry projects in that region.

Component II: Community works for natural disaster prevention and mitigation (US$4 million). This component will support local initiatives by municipalities and rural community organizations to cofinance the construction of simple communal works to prevent and mitigate disasters. Works cofinanced by the program must be concordant with the respective subbasin's management plan and must be part of annual municipal-development work plans. The total cost ceiling for a works project will be US$100,000. Typical works will be retaining walls and gabions, silt traps, riverbank stabilization, gully recovery, slope correction and protection, and protective forest plantations. The program also will pay for participatory activities to produce area hazard maps and disaster early-warning plans.

Component III: Capacity-building and training for natural resources management (US$3.5 million). The *institutional capacity strengthening subcomponent* includes institutional strengthening of

MARENA and INAFOR and of co-executing agencies and the design and setup of a monitoring system to track the program's progress and impact. The *studies subcomponent* will fund a number of technical studies prioritized by MARENA and INAFOR. The *environmental education subcomponent* will sensitize the general public in the watersheds to specific issues relating to the management of natural resources and protected areas. The *pest and forest fire prevention subcomponent* will finance activities to protect program-area woodlands.

The Bank's country and sector strategy: The objectives of the Bank's strategy in Nicaragua are to combat poverty, help achieve sustainable development, and help conserve renewable natural resources. In 1999, in light of the evident need to reduce the region's vulnerability, the Bank adopted a new policy featuring a more integrated, preventive approach to lessening the risk of natural disasters and helping countries to recover from such calamities. POSAF II will help Nicaragua implement its Enhanced Poverty Reduction Strategy in rural areas. The program also is in line with the country's Post-Mitch Reconstruction and Transformation Plan unveiled in Stockholm (paragraphs 1.15 to 1.17).

Environmental and social review: For the most part the program's impact on the environment will be beneficial. Any potential adverse impacts would be associated with the civil works construction intended to leave the target areas less vulnerable to natural disasters and the misuse of farm chemicals. To minimize these risks the program would finance the necessary preinvestment studies (including environmental considerations) for municipal works, furnish technical assistance and training on environmental matters, promote sustainable production systems, and teach producers to use farm chemicals correctly. The planned monitoring, follow-up and evaluation activities will check that producers are applying the proposed technologies appropriately and that corrective action is taken promptly when needed (paragraphs 5.3 and 5.4), and that the country's environmental laws and regulations are being adhered to.

Benefits: The program will yield economic benefits in the form of higher incomes in the long term because the production systems brought in will be more profitable and sustainable and producers will be spending less on agrochemicals. The program's chief environmental benefits will be more sustainable soil and water use, a slowing of the deforestation rate, an increase in soil-protecting plant cover and carbon dioxide capture, and a reduction in water pollution and silting in water bodies. Its social benefits will take the form of enhanced technical and organizational capacity of the target area population and institutions, and less danger of natural disasters.

Risks:

If MARENA and INAFOR do not cooperate sufficiently the project might be implemented more slowly than planned. The institution-strengthening activities and measures planned for the two agencies are designed to counter that risk.

Participating producers could distort the technologies and systems offered to them for efficient natural resources use. To allay that risk, the POSAF I technical assistance model has been improved, so as to make certain that co-executing agencies and beneficiaries will understand and master techniques to put the selected production systems into practice.

Because the POSAF II priority subbasins are prone to natural disasters, the program is advocating watershed management planning as a valuable tool to lessen this risk. The component II mitigation works also will help reduce the risk of natural disasters (paragraphs 5.24 to 5.27).

Special contractual clauses:

Conditions precedent to the first disbursement: The borrower must demonstrate that the following conditions have been fulfilled:

1. The makeup of the POSAF I Program Coordination Unit has been updated and adjusted for the POSAF II activities, on terms agreed upon previously between the executing agency and the Bank (paragraph 3.3).

2. The National Executive Committee has been formed (paragraph 3.4).

3. The MARENA-INAFOR agreement has been signed, on terms agreed on with the Bank (paragraph 3.3).

4. The Operating Regulations have been approved and have entered into force, on terms agreed upon with the Bank (paragraph 3.3).

5. NDF cofinancing for the program has been approved and the respective cofinancing agreement has been signed (paragraph 2.40).

Other special conditions:

1. A midterm review will be conducted 30 months into the program to decide if it requires any adjustments. The final evaluation will be performed at the end of year 5 by reference to indicators agreed on with the Bank (paragraph 3.40).

2. In the course of the program there will be annual operational audits with semiannual reviews, and annual financial audits, in accordance with terms of reference agreed on with the Bank (paragraph 3.41).

Poverty-targeting and social sector classification: This operation qualifies as a social equity enhancing project as described in the indicative targets for Bank activities contained in the Eighth Replenishment document (AB-1704). It also qualifies as a poverty-targeted investment (PTI) by geographic classification (see paragraphs 1.1, 1.5 and 1.8). The borrower will use the 10% additional financing.

Exceptions to Bank policy: None.

Procurement: Contracts for works, goods and associated services, and consulting services for the program will be awarded following the Bank's procurement procedures and policies. International competitive bidding will be required for: (i) works costing US$1 million equivalent or more and (ii) goods and related services costing US$250,000 equivalent or more. International calls for proposals must be held for consulting services costing more than US$200,000 equivalent.

Procurement and contracting for works and goods below the aforelisted thresholds will be governed in principle by Nicaraguan law provided the latter is concordant with Bank policies (paragraphs 3.35 and 3.36).